

SMITH COUNTY, MISSISSIPPI

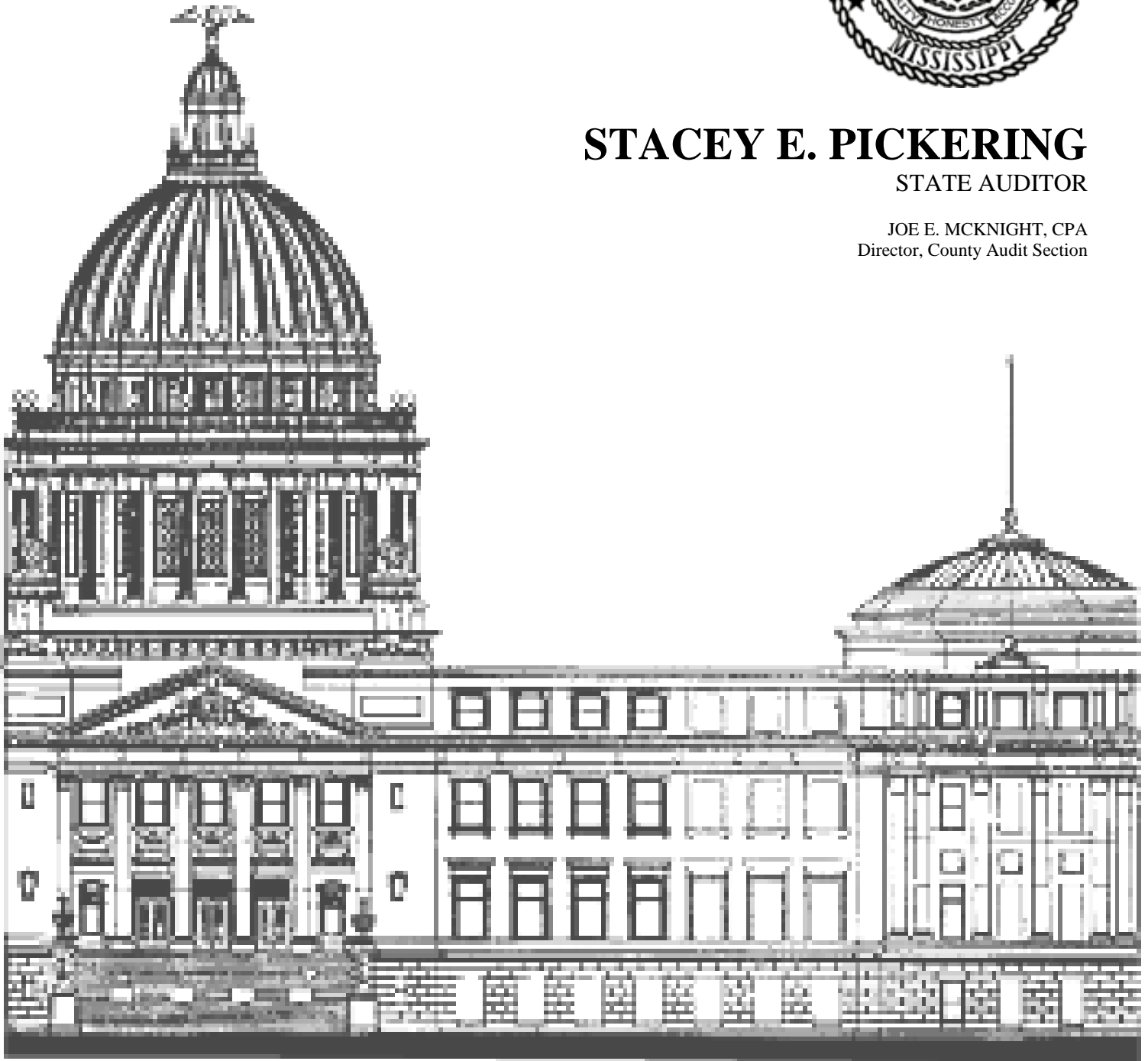
Audited Financial Statements and Special Reports
For the Year Ended September 30, 2014



STACEY E. PICKERING

STATE AUDITOR

JOE E. MCKNIGHT, CPA
Director, County Audit Section



A Report from the County Audit Section

www.osa.state.ms.us



STATE OF MISSISSIPPI
OFFICE OF THE STATE AUDITOR
STACEY E. PICKERING
AUDITOR

May 17, 2016

Members of the Board of Supervisors
Smith County, Mississippi

Dear Board Members:

I am pleased to submit to you the 2014 financial and compliance audit report for Smith County. This audit was performed pursuant to Section 7-7-211(e), Mississippi Code Ann. (1972). The audit was performed in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

I appreciate the cooperation and courtesy extended by the officials and employees of Smith County throughout the audit. Thank you for working to move Mississippi forward by serving as a supervisor for Smith County. If I or this office can be of any further assistance, please contact me or Joe McKnight of my staff at (601) 576-2674.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Stacey E. Pickering", is written over a horizontal line.

Stacey E. Pickering
State Auditor

SMITH COUNTY

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SMITH COUNTY

FINANCIAL SECTION

SMITH COUNTY

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**STATE OF MISSISSIPPI
OFFICE OF THE STATE AUDITOR
STACEY E. PICKERING
AUDITOR**

INDEPENDENT AUDITOR'S REPORT

Members of the Board of Supervisors
Smith County, Mississippi

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Smith County, Mississippi, (the County) as of and for the year ended September 30, 2014, and the related notes to the financial statements, which collectively comprise the basic financial statements of the County's primary government as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Basis for Adverse Opinion on the Aggregate Discretely Presented Component Unit

The financial statements do not include financial data for the County's legally separate component unit. Accounting principles generally accepted in the United States of America require the financial data for this component unit to be reported with the financial data of the County's primary government unless the County also issues financial statements for the financial reporting entity that include the financial data for its component unit. The County has not issued such reporting entity financial statements. The amount by which this departure would affect the assets, liabilities, net position, revenues and expenses of the aggregate discretely presented component unit is not reasonably determinable.

Adverse Opinion

In our opinion, because of the significance of the matter discussed in the "Basis for Adverse Opinion on the Aggregate Discretely Presented Component Unit" paragraph, the financial statements referred to above do not present fairly, the financial position of the aggregate discretely presented component unit of Smith County, Mississippi, as of September 30, 2014, or the changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Qualified Opinion on the General Fund

Management did not maintain adequate subsidiary records documenting the existence and valuation of fines receivable of the Circuit Court or the aging of these fines receivable. Due to the nature of the County's records, we were unable to satisfy ourselves as to the fair presentation of fines receivable, net, reported in the General Fund at \$173,687, as of September 30, 2014. Also, because of the nature of the fines receivable records, we could not satisfy ourselves as to the fair presentation of the related transactions of the General Fund.

Qualified Opinion

In our opinion, except for the effects of such adjustments, if any, as might have been determined had we been able to examine evidence to determine the net realizable value of the Circuit Court fines receivable reported in the General Fund as described in the "Basis for Qualified Opinion on the General Fund" paragraph, the financial statements referred to previously present fairly, in all material respects, the financial position of the General Fund of Smith County, Mississippi, as of September 30, 2014, and the changes in financial position thereof for the year ended in conformity with accounting principles generally accepted in the United States of America.

Unmodified Opinions

In our opinion, the financial statements referred to previously present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, Countywide Road and Bridge Fund, County Engineer Fund, Jail Construction Fund, 2005 Chancery Building and Jail GO Bond Fund and the aggregate remaining fund information of Smith County, Mississippi, as of September 30, 2014, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Budgetary Comparison Schedules and corresponding notes be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Omission of Required Supplementary Information

Smith County, Mississippi, has omitted the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America requires to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Information

The Schedule of Surety Bonds for County Officials has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 17, 2016, on our consideration of Smith County, Mississippi's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Smith County, Mississippi's internal control over financial reporting and compliance.

A handwritten signature in black ink, appearing to read "Joe E. Mcknight". The signature is fluid and cursive, with the first letters of the first and last names being capitalized and prominent.

JOE E. MCKNIGHT, CPA
Director, County Audit Section

May 17, 2016

SMITH COUNTY

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SMITH COUNTY

FINANCIAL STATEMENTS

SMITH COUNTY

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SMITH COUNTY
Statement of Net Position
September 30, 2014

Exhibit 1

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash	\$ 12,139,162	811,153	12,950,315
Property tax receivable	6,574,050		6,574,050
Accounts receivable (net of allowance for uncollectibles of \$406,506)		435,064	435,064
Fines receivable (net of allowance for uncollectibles of \$815,702)	173,687		173,687
Intergovernmental receivables	114,791		114,791
Internal balances	11,602	(11,602)	
Capital assets:			
Land and construction in progress	2,089,168		2,089,168
Other capital assets, net	32,172,749	241,501	32,414,250
Total Assets	<u>53,275,209</u>	<u>1,476,116</u>	<u>54,751,325</u>
LIABILITIES			
Claims payable	1,152,284	25,670	1,177,954
Intergovernmental payables	245,668		245,668
Accrued interest payable	12,546		12,546
Unearned revenue	177,629	65,136	242,765
Other payables	64,314		64,314
Long-term liabilities			
Due within one year:			
Capital debt	726,250		726,250
Due in more than one year:			
Capital debt	3,767,939		3,767,939
Total Liabilities	<u>6,146,630</u>	<u>90,806</u>	<u>6,237,436</u>
DEFERRED INFLOWS OF RESOURCES			
Property tax for future reporting period	6,574,050		6,574,050
Total deferred inflows of resources	<u>6,574,050</u>	<u>0</u>	<u>6,574,050</u>
NET POSITION			
Net investment in capital assets	29,767,728	241,501	30,009,229
Restricted for:			
Expendable:			
General government	496,339		496,339
Debt service	1,536,897		1,536,897
Public safety	1,278,206		1,278,206
Public works	1,759,848	1,143,809	2,903,657
Culture and recreation	61,200		61,200
Conservation of natural resources	8,017		8,017
Economic development	24,113		24,113
Unrestricted	5,622,181		5,622,181
Total Net Position	<u>\$ 40,554,529</u>	<u>1,385,310</u>	<u>41,939,839</u>

The notes to the financial statements are an integral part of this statement.

SMITH COUNTY
Statement of Activities
For the Year Ended September 30, 2014

Exhibit 2

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government Governmental Activities	Business-type Activities	Total
Primary government:							
Governmental activities:							
General government	\$ 2,553,163	189,229	55,769		(2,308,165)		(2,308,165)
Public safety	1,881,643	176,065	127,158	37,884	(1,540,536)		(1,540,536)
Public works	4,291,370		556,352	1,613,512	(2,121,506)		(2,121,506)
Health and welfare	120,143		12,791		(107,352)		(107,352)
Culture and recreation	151,181				(151,181)		(151,181)
Education	198,544		198,544				
Conservation of natural resources	64,080				(64,080)		(64,080)
Economic development and assistance	63,384				(63,384)		(63,384)
Interest on long-term debt	181,957				(181,957)		(181,957)
Total Governmental Activities	<u>9,505,465</u>	<u>365,294</u>	<u>950,614</u>	<u>1,651,396</u>	<u>(6,538,161)</u>		<u>(6,538,161)</u>
Business-type activities:							
Solid Waste	<u>508,589</u>	<u>646,947</u>	<u></u>	<u></u>		<u>138,358</u>	<u>138,358</u>
Total Business-type Activities	<u>508,589</u>	<u>646,947</u>	<u>0</u>	<u>0</u>		<u>138,358</u>	<u>138,358</u>
Total Primary Government	<u>\$ 10,014,054</u>	<u>1,012,241</u>	<u>950,614</u>	<u>1,651,396</u>	<u>(6,538,161)</u>	<u>138,358</u>	<u>(6,399,803)</u>
General revenues:							
Property taxes					\$ 6,600,039		6,600,039
Road & bridge privilege taxes					204,726		204,726
Grants and contributions not restricted to specific programs					1,276,803		1,276,803
In lieu taxes - salt dome					452,955		452,955
Unrestricted interest income					81,156	1,652	82,808
Miscellaneous					131,729	6,619	138,348
Total General Revenues					<u>8,747,408</u>	<u>8,271</u>	<u>8,755,679</u>
Changes in Net Position					<u>2,209,247</u>	<u>146,629</u>	<u>2,355,876</u>
Net Position - Beginning					<u>38,345,282</u>	<u>1,238,681</u>	<u>39,583,963</u>
Net Position - Ending					<u>\$ 40,554,529</u>	<u>1,385,310</u>	<u>41,939,839</u>

The notes to the financial statements are an integral part of this statement.

SMITH COUNTY
Balance Sheet - Governmental Funds
September 30, 2014

Exhibit 3

	Major Funds						
	General Fund	Countywide Road & Bridge Fund	County Engineer Fund	Jail Construction Fund	2005 Chy. Bldg. & Jail GO Bond Fund	Other Governmental Funds	Total Governmental Funds
ASSETS							
Cash	\$ 5,786,258	369,330	23,613	1,239,107	1,415,898	3,304,956	12,139,162
Property tax receivable	3,952,550	1,704,500			595,000	322,000	6,574,050
Fines receivable (net of allowance for uncollectibles of \$815,702)	173,687						173,687
Intergovernmental receivables	111,331		3,460				114,791
Due from other funds	11,602	21,860			9,044	21,841	64,347
Advances to other funds	47,882					2,109	49,991
Total Assets	<u>\$ 10,083,310</u>	<u>2,095,690</u>	<u>27,073</u>	<u>1,239,107</u>	<u>2,019,942</u>	<u>3,650,906</u>	<u>19,116,028</u>
LIABILITIES							
Liabilities:							
Claims payable	\$ 145,852	20,967	26,738	436,653		522,074	1,152,284
Intergovernmental payables	241,805						241,805
Due to other funds	56,608						56,608
Advances from other funds						49,991	49,991
Unearned revenue						177,629	177,629
Other payables	64,314						64,314
Total Liabilities	<u>\$ 508,579</u>	<u>20,967</u>	<u>26,738</u>	<u>436,653</u>	<u>0</u>	<u>749,694</u>	<u>1,742,631</u>
DEFERRED INFLOWS OF RESOURCES:							
Unavailable revenue - property taxes	3,952,550	1,704,500			595,000	322,000	6,574,050
Unavailable revenue - fines	173,687						173,687
Total deferred inflows of resources	<u>\$ 4,126,237</u>	<u>1,704,500</u>	<u>0</u>	<u>0</u>	<u>595,000</u>	<u>322,000</u>	<u>6,747,737</u>
Fund balances:							
Nonspendable:							
Advances	47,882						47,882
Restricted for:							
General government						496,339	496,339
Public safety				802,454		475,752	1,278,206
Public works		370,223	335			1,389,290	1,759,848
Culture and recreation						61,200	61,200
Conservation of natural resources						8,017	8,017
Economic development and assistance						24,113	24,113
Debt service					1,424,942	124,501	1,549,443
Assigned to:							
Public safety	1,805,225						1,805,225
Unassigned	3,595,387						3,595,387
Total Fund Balances	<u>\$ 5,448,494</u>	<u>370,223</u>	<u>335</u>	<u>802,454</u>	<u>1,424,942</u>	<u>2,579,212</u>	<u>10,625,660</u>
Total Liabilities and Fund Balances	<u>\$ 10,083,310</u>	<u>2,095,690</u>	<u>27,073</u>	<u>1,239,107</u>	<u>2,019,942</u>	<u>3,650,906</u>	<u>19,116,028</u>

The notes to the financial statements are an integral part of this statement.

SMITH COUNTY

Exhibit 3-1Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position
September 30, 2014

	<u>Amount</u>
Total Fund Balance - Governmental Funds	\$ 10,625,660
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets are used in governmental activities and are not financial resources and, therefore, are not reported in the funds, net of accumulated depreciation of \$50,345,751.	34,261,917
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds.	173,687
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.	(4,494,189)
Accrued interest payable is not due and payable in the current period and, therefore, is not reported in the funds.	<u>(12,546)</u>
Total Net Position - Governmental Activities	\$ <u><u>40,554,529</u></u>

The notes to the financial statements are an integral part of this statement.

SMITH COUNTY

Exhibit 4Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds
For the Year Ended September 30, 2014

	Major Funds						
	General	Countywide	County	Jail	2005 Chy. Bldg.	Other	Total
	Fund	Road & Bridge	Engineer	Construction	& Jail GO Bond	Governmental	Governmental
	Fund	Fund	Fund	Fund	Fund	Funds	Funds
REVENUES							
Property taxes	\$ 4,147,761	1,497,853			619,689	334,736	6,600,039
Road and bridge privilege taxes						204,726	204,726
Licenses, commissions and other revenue	101,143					4,210	105,353
Fines and forfeitures	132,886					2,397	135,283
In lieu taxes - salt dome	300,000	152,955					452,955
Intergovernmental revenues	673,685	12,473	1,643,632			1,549,023	3,878,813
Charges for services	20,337					137,152	157,489
Interest income	68,301	1,235		3,583	2,401	5,636	81,156
Miscellaneous revenues	140,092	547				55,594	196,233
Total Revenues	<u>5,584,205</u>	<u>1,665,063</u>	<u>1,643,632</u>	<u>3,583</u>	<u>622,090</u>	<u>2,293,474</u>	<u>11,812,047</u>
EXPENDITURES							
Current:							
General government	2,457,583					3,109	2,460,692
Public safety	1,611,522			1,285,369		209,450	3,106,341
Public works		349,305	1,643,632			3,272,010	5,264,947
Health and welfare	120,143						120,143
Culture and recreation	145,000					2,204	147,204
Education	198,544						198,544
Conservation of natural resources	62,721						62,721
Economic development and assistance	33,200					30,184	63,384
Debt service:							
Principal	33,125	53,553			250,000	455,093	791,771
Interest	1,534	1,740			151,131	28,536	182,941
Total Expenditures	<u>4,663,372</u>	<u>404,598</u>	<u>1,643,632</u>	<u>1,285,369</u>	<u>401,131</u>	<u>4,000,586</u>	<u>12,398,688</u>
Excess of Revenues over (under) Expenditures	<u>920,833</u>	<u>1,260,465</u>	<u>0</u>	<u>(1,281,786)</u>	<u>220,959</u>	<u>(1,707,112)</u>	<u>(586,641)</u>
OTHER FINANCING SOURCES (USES)							
Long-term capital debt issued						69,794	69,794
Proceeds from sale of capital assets	4,950						4,950
Transfers in	40,000					1,652,955	1,692,955
Transfers out		(1,652,955)				(40,000)	(1,692,955)
Total Other Financing Sources and Uses	<u>44,950</u>	<u>(1,652,955)</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>1,682,749</u>	<u>74,744</u>
Net Changes in Fund Balances	<u>965,783</u>	<u>(392,490)</u>	<u>0</u>	<u>(1,281,786)</u>	<u>220,959</u>	<u>(24,363)</u>	<u>(511,897)</u>
Fund Balances - Beginning	<u>4,482,711</u>	<u>762,713</u>	<u>335</u>	<u>2,084,240</u>	<u>1,203,983</u>	<u>2,603,575</u>	<u>11,137,557</u>
Fund Balances - Ending	<u>\$ 5,448,494</u>	<u>370,223</u>	<u>335</u>	<u>802,454</u>	<u>1,424,942</u>	<u>2,579,212</u>	<u>10,625,660</u>

The notes to the financial statements are an integral part of this statement.

SMITH COUNTY

Exhibit 4-1

Reconciliation of the Statement of Revenues, Expenditures and Changes in
Fund Balances of Governmental Funds to the Statement of Activities
For the Year Ended September 30, 2014

	<u>Amount</u>
Net Changes in Fund Balances - Governmental Funds	\$ (511,897)
Amounts reported for governmental activities in the Statement of Activities are different because:	
Governmental Funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. Thus, the change in net position differs from the change in fund balances by the amount that capital outlays of \$2,972,199 exceeded depreciation of \$871,731 in the current period.	2,100,468
In the Statement of Activities, only gains and losses from the sale of capital assets are reported, whereas in the Governmental Funds, proceeds from the sale of capital assets increase financial resources. Thus, the change in net position differs from the change in fund balances by the amount of the net loss of \$64,504 and the proceeds from the sale of \$4,950 in the current period.	(69,454)
Fine revenue recognized on the modified accrual basis in the funds during the current year is reduced because prior year recognition would have been required on the Statement of Activities using the full-accrual basis of accounting.	(32,831)
Debt proceeds provide current financial resources to Governmental Funds, but issuing debt increases long-term liabilities in the Statement of Net Position. Repayment of debt principal is an expenditure in the Governmental Funds, but the repayment reduces long-term liabilities in the Statement of Net Position. Thus, the change in net position differs from the change in fund balances by the amount that debt repayments of \$791,771 exceeded debt proceeds of \$69,794.	721,977
Under the modified accrual basis of accounting used in the Governmental Funds, expenditures are not recognized for transactions that are not normally paid with expendable available financial resources. However, in the Statement of Activities, which is presented on the accrual basis, expenses and liabilities are reported regardless of when financial resources are available. In addition, interest on long-term debt is recognized under the modified accrual basis of accounting when due, rather than as it accrues. Thus, the change in net position differs from the change in fund balances by a combination of the following items:	
Decrease in accrued interest payable	<u>984</u>
Change in Net Position of Governmental Activities	\$ <u><u>2,209,247</u></u>

The notes to the financial statements are an integral part of this statement.

SMITH COUNTY
Statement of Net Position - Proprietary Fund
September 30, 2014

Exhibit 5

	Business-type Activities - Enterprise Fund
	<u>Solid Waste Fund</u>
ASSETS	
Current assets:	
Cash	\$ 811,153
Accounts receivable (net of allowance for uncollectibles of \$406,506)	<u>435,064</u>
Total Current Assets	<u>1,246,217</u>
Noncurrent assets:	
Capital assets:	
Other capital assets, net	<u>241,501</u>
Total Noncurrent Assets	<u>241,501</u>
Total Assets	<u>1,487,718</u>
LIABILITIES	
Current liabilities:	
Claims payable	25,670
Due to other funds	11,602
Unearned revenue	<u>65,136</u>
Total Current Liabilities	<u>102,408</u>
NET POSITION	
Net investment in capital assets	241,501
Restricted for:	
Public works	<u>1,143,809</u>
Total Net Position	<u>\$ 1,385,310</u>

The notes to the financial statements are an integral part of this statement.

SMITH COUNTY

Exhibit 6Statement of Revenues, Expenses and Changes in Net Position - Proprietary Fund
For the Year Ended September 30, 2014

	Business-type Activities - Enterprise Fund
	<u>Solid Waste Fund</u>
Operating Revenues	
Charges for services	\$ 646,947
Miscellaneous	279
Total Operating Revenues	<u>647,226</u>
Operating Expenses	
Personal services	203,156
Contractual services	124,122
Materials and supplies	114,746
Depreciation expense	54,963
Indirect administrative cost	11,602
Total Operating Expenses	<u>508,589</u>
Operating Income (Loss)	<u>138,637</u>
Nonoperating Revenues (Expenses)	
Interest income	1,652
Compensation for loss of capital assets	6,340
Net Nonoperating Revenue (Expenses)	<u>7,992</u>
Changes in Net Position	<u>146,629</u>
Net Position - Beginning	<u>1,238,681</u>
Net Position - Ending	<u>\$ 1,385,310</u>

SMITH COUNTY
Statement of Cash Flows - Proprietary Fund
For the Year Ended September 30, 2014

Exhibit 7

	Business-type Activities - Enterprise Fund
	<u>Solid Waste Fund</u>
Cash Flows From Operating Activities	
Receipts from customers	\$ 590,821
Payments to suppliers	(115,625)
Payments to employees	(203,156)
Payments for contractual services	(122,809)
Payments to General Fund for indirect costs	(12,096)
Miscellaneous	279
Net Cash Provided (Used) by Operating Activities	<u>137,414</u>
Cash Flows From Capital and Related Financing Activities	
Proceeds from sale of capital assets	7,775
Acquisition and construction of capital assets	(145,421)
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(137,646)</u>
Cash Flows From Investing Activities	
Interest on deposits	1,652
Net Cash Provided (Used) by Investing Activities	<u>1,652</u>
Net Increase (Decrease) in Cash and Cash Equivalents	1,420
Cash and Cash Equivalents at Beginning of Year	<u>809,733</u>
Cash and Cash Equivalents at End of Year	<u>\$ 811,153</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:	
Operating income (loss)	\$ 138,637
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Depreciation expense	54,963
Changes in assets and liabilities:	
(Increase) decrease in accounts receivable	(52,448)
Increase (decrease) in claims payable	434
Increase (decrease) in unearned revenue	(3,678)
Increase (decrease) in interfund payables	(494)
Total Adjustments	<u>(1,223)</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ 137,414</u>

The notes to the financial statements are an integral part of this statement.

SMITH COUNTY
Statement of Fiduciary Assets and Liabilities
September 30, 2014

Exhibit 8

	<u>Agency Funds</u>
ASSETS	
Cash	\$ 326,934
Due from other funds	<u>3,863</u>
Total Assets	<u>\$ 330,797</u>
LIABILITIES	
Amounts held in custody for others	\$ 272,211
Intergovernmental payables	<u>58,586</u>
Total Liabilities	<u>\$ 330,797</u>

The notes to the financial statements are an integral part of this statement.

SMITH COUNTY

Notes to Financial Statements For the Year Ended September 30, 2014

(1) Summary of Significant Accounting Policies.

A. Financial Reporting Entity.

Smith County, Mississippi is a political subdivision of the State of Mississippi. The County is governed by an elected five-member Board of Supervisors. Accounting principles generally accepted in the United States of America require Smith County to present these financial statements on the primary government and its component unit which has significant operational or financial relationships with the County.

Management has chosen to omit from these financial statements the following component unit which has a significant operational or financial relationship with the County. Accordingly, the financial statements do not include the data of this component unit necessary for reporting in accordance with accounting principles generally accepted in the United States of America.

- Smith County Economic Development Authority

State law pertaining to County government provides for the independent election of County officials. The following elected and appointed officials are all part of the County legal entity and therefore are reported as part of the primary government financial statements.

- Board of Supervisors
- Chancery Clerk
- Circuit Clerk
- Justice Court Clerk
- Purchase Clerk
- Tax Assessor-Collector
- Sheriff

B. Basis of Presentation.

The County's basic financial statements consist of government-wide statements, including a Statement of Net Position and a Statement of Activities, fund financial statements and accompanying note disclosures which provide a detailed level of financial information.

Government-wide Financial Statements:

The Statement of Net Position and Statement of Activities display information concerning the County as a whole. The statements include all nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities are generally financed through taxes, intergovernmental revenues and other nonexchange revenues and are reported separately from business-type activities. Business-type activities rely mainly on fees and charges for support.

The Statement of Net Position presents the financial condition of the governmental activities and business-type activities of the County at year-end. The Government-wide Statement of Activities presents a comparison between direct expenses and program revenues for each function or program of the County's governmental activities and business-type activities. Direct expenses are those that are specifically associated with a service, program or department and therefore, are clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Taxes and other revenues not classified as program revenues, are presented as general revenues of the County, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business-type activity or governmental function is self-financing or draws from the general revenues of the County.

SMITH COUNTY

Notes to Financial Statements For the Year Ended September 30, 2014

Fund Financial Statements:

Fund financial statements of the County are organized into funds, each of which is considered to be separate accounting entities. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues and expenditures/expenses. Funds are organized into governmental, proprietary and fiduciary. Major individual Governmental Funds and major individual Enterprise Funds are reported as separate columns in the fund financial statements. Nonmajor funds are aggregated and presented in a single column as Other Governmental Funds.

C. Measurement Focus and Basis of Accounting.

The Government-wide, Proprietary Funds and Fiduciary Funds (excluding agency funds) financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. Revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used, regardless of when the related cash flows take place. Property taxes are recognized as revenue in the year for which they are levied. Shared revenues are recognized when the provider government recognizes the liability to the County. Grants are recognized as revenues as soon as all eligibility requirements have been satisfied. Agency funds have no measurement focus, but use the accrual basis of accounting.

The revenues and expenses of Proprietary Funds are classified as operating or nonoperating. Operating revenues and expenses generally result from providing services in connection with a Proprietary Fund's primary operations. All other revenues and expenses are reported as nonoperating.

Governmental financial statements are presented using a current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized in the accounting period when they are both measurable and available to finance operations during the year or to liquidate liabilities existing at the end of the year. Available means collected in the current period or within 60 days after year end to liquidate liabilities existing at the end of the year. Measurable means knowing or being able to reasonably estimate the amount. Expenditures are recognized in the accounting period when the related fund liabilities are incurred. Debt service expenditures and expenditures related to compensated absences and claims and judgments, are recognized only when payment is due. Property taxes, state appropriations and federal awards are all considered to be susceptible to accrual and have been recognized as revenues of the current fiscal period.

The County reports the following major Governmental Funds:

General Fund - This fund is used to account for and report all financial resources not accounted for and reported in another fund.

Countywide Road and Bridge Fund - This fund is used to account for resources designated and used for maintenance of the County's infrastructure system.

County Engineer Fund - This fund is used to account for monies from specific revenue sources that are restricted for road construction and repairs.

Jail Construction Fund - This fund is used to account for bond proceeds designated to be used for the construction of a new jail.

2005 Chancery Building & Jail GO Bonds Fund - This fund is used to account for retirement of long-term debt of the County.

The County reports the following major Enterprise Fund:

Solid Waste Fund - This fund is used to account for the County's activities of disposal of solid waste within the County.

SMITH COUNTY

Notes to Financial Statements For the Year Ended September 30, 2014

Additionally, the County reports the following fund types:

GOVERNMENTAL FUND TYPES

Special Revenue Funds - These funds are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects.

Debt Service Funds - These funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for principal and interest.

Capital Projects Funds - These funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets.

PROPRIETARY FUND TYPE

Enterprise Funds - These funds are used to account for those operations that are financed and operated in a manner similar to private business enterprises or where the County has decided that periodic determination of revenues earned, expenses incurred and/or net income is necessary for management accountability.

FIDUCIARY FUND TYPE

Agency Funds - These funds account for various taxes, deposits and other monies collected or held by the County, acting in the capacity of an agent, for distribution to other governmental units or designated beneficiaries.

D. Account Classifications.

The account classifications used in the financial statements conform to the broad classifications recommended in *Governmental Accounting, Auditing and Financial Reporting* as issued in 2012 by the Government Finance Officers Association.

E. Deposits and Investments.

State law authorizes the County to invest in interest bearing time certificates of deposit for periods of fourteen days to one year with depositories and in obligations of the U.S. Treasury, State of Mississippi, or any County, municipality or school district of this state. Further, the County may invest in certain repurchase agreements.

Cash includes cash on hand, demand deposits, all certificates of deposit and cash equivalents, which are short-term highly liquid investments that are readily convertible to cash (generally three months or less). Investments in governmental securities are stated at fair value. However, the County did not invest in any governmental securities during the fiscal year.

F. Receivables.

Receivables are reported net of allowances for uncollectible accounts, where applicable.

SMITH COUNTY

Notes to Financial Statements For the Year Ended September 30, 2014

G. Interfund Transactions and Balances.

Transactions between funds that are representative of short-term lending/borrowing arrangements and transactions that have not resulted in the actual transfer of cash at the end of the fiscal year are referred to as "due to/from other funds." Noncurrent portions of interfund receivables and payables are reported as "advances to/from other funds." Advances between funds, as reported in the fund financial statements, are offset by a nonspendable fund balance account in the General Fund, if applicable, to indicate that they are not available for appropriation and are not expendable available financial resources. However, this is not applicable to advances reported in other governmental funds, which are reported, by definition, as restricted, committed, or assigned. Interfund receivables and payables between funds within governmental activities are eliminated in the Statement of Net Position. Any outstanding balances between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

H. Capital Assets.

Capital acquisition and construction are reflected as expenditures in Governmental Fund statements and the related assets are reported as capital assets in the (applicable) governmental or business-type activities column in the government-wide financial statements. All purchased capital assets are stated at historical cost where records are available and at an estimated historical cost where no records exist. Capital assets include significant amounts of infrastructure which have been valued at estimated historical cost. The estimated historical cost was based on replacement cost multiplied by the consumer price index implicit price deflator for the year of acquisition. The extent to which capital assets, other than infrastructure, costs have been estimated and the methods of estimation are not readily available. Donated capital assets are recorded at estimated fair market value at the time of donation. The costs of normal maintenance and repairs that do not add to the value of assets or materially extend their respective lives are not capitalized; however, improvements are capitalized. Interest expenditures are not capitalized on capital assets.

Governmental accounting and financial reporting standards allow governments meeting certain criteria to elect not to report major general infrastructure assets retroactively. Smith County meets this criteria and has so elected. Therefore, the major general infrastructure assets acquired prior to October 1, 2002, are not reported in the government-wide financial statements. General infrastructure assets include all roads and bridges and other infrastructure assets acquired subsequent to October 1, 2002.

Capital assets acquired or constructed for Proprietary Fund operations are capitalized at cost in the respective funds in which they are utilized. No interest is capitalized on self-constructed assets because noncapitalization of interest does not have a material effect on the County's financial statements. Donated capital assets are recorded at their fair value at the time of donation.

Capitalization thresholds (dollar value above which asset acquisitions are added to the capital asset accounts) and estimated useful lives are used to report capital assets in the government-wide statements and Proprietary Funds. Depreciation is calculated on the straight-line basis for all assets, except land. A full year's depreciation expense is taken for all purchases and sales of capital assets during the year. The following schedule details those thresholds and estimated useful lives:

	<u>Capitalization Thresholds</u>	<u>Estimated Useful Life</u>
Land	\$ 0	N/A
Infrastructure	0	20-50 years
Buildings	50,000	40 years
Improvements other than buildings	25,000	20 years
Mobile equipment	5,000	5-10 years
Furniture and equipment	5,000	3-7 years
Leased property under capital leases	*	*

SMITH COUNTY

Notes to Financial Statements For the Year Ended September 30, 2014

* Leased property capitalization policy and estimated useful life will correspond with the amounts for the asset classification, as listed above.

I. Deferred Outflows/Inflows of Resources.

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

Property tax for future reporting period/unavailable revenue - property taxes - Deferred inflows of resources should be reported when resources associated with imposed nonexchange revenue transactions are received or reported as a receivable before the period for which property taxes are levied.

Unavailable revenue - fines - When an asset is recorded in the governmental fund financial statements but the revenue is not available, the government should report a deferred inflow of resources until such time as the revenue becomes available.

J. Long-term Liabilities.

Long-term liabilities are the unmatured principal of bonds, loans, notes or other forms of noncurrent or long-term general obligation indebtedness. Long-term liabilities are not limited to liabilities from debt issuances, but may also include liabilities on lease-purchase agreements and other commitments.

In the government-wide financial statements and in the Proprietary Fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities or Proprietary Funds Statement of Net Position.

K. Equity Classifications.

Government-wide Financial Statements:

Equity is classified as Net Position and displayed in three components:

Net investment in capital assets - Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, notes or other borrowings attributable to the acquisition, construction or improvement of those assets.

Restricted net position - Consists of net position with constraints placed on the use either by external groups such as creditors, grantors, contributors, or laws and regulations of other governments; or law through constitutional provisions or enabling legislation.

Unrestricted net position - All other net position not meeting the definition of "restricted" or "net investment in capital assets."

SMITH COUNTY

Notes to Financial Statements For the Year Ended September 30, 2014

Net Position Flow Assumption:

When an expense is incurred for purposes for which both restricted and unrestricted (assigned or unassigned) resources are available, it is the County's general policy to use restricted resources first. When expenses are incurred for purposes for which unrestricted (assigned, and unassigned) resources are available, and amounts in any of these unrestricted classifications could be used, it is the County's general policy to spend assigned resources first and then unassigned amounts.

Fund Financial Statements:

Fund balances for governmental funds are reported in classifications that comprise a hierarchy based primarily on the extent to which the government is bound to honor constraints on the specific purposes for which amounts in those funds can be spent.

Government fund balance is classified as nonspendable, restricted, committed, assigned or unassigned. The following are descriptions of fund classifications used by the County:

Nonspendable fund balance includes amounts that cannot be spent. This includes amounts that are either not in a spendable form (inventories, prepaid amounts, long-term portion of loans/notes receivable, or property held for resale unless the proceeds from the collection of those receivables or from the sale of those properties are restricted, committed or assigned) or amounts that are legally or contractually required to be maintained intact, such as a principal balance of a permanent fund.

Restricted fund balance includes amounts that have constraints placed upon the use of the resources either by an external party or imposed by law through a constitutional provision or enabling legislation.

Assigned fund balance includes amounts that are constrained by the County's intent to be used for a specific purpose, but are neither restricted nor committed. For governmental funds, other than the General Fund, this is the residual amount within the fund that is not classified as nonspendable and is neither restricted nor committed. Assignments of fund balance are created by the Board of Supervisors pursuant to authorization established by Section 19-3-59, Miss Code Ann. (1972).

Unassigned fund balance is the residual classification for the General Fund. This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed or assigned to specific purposes within the General Fund. The General Fund should be the only fund that reports a positive unassigned fund balance amount. In other governmental funds if expenditures incurred for specific purposes exceeded the amounts restricted, committed or assigned to those purposes, it may be necessary to report a negative unassigned fund balance.

Fund Balance Flow Assumption:

When an expenditure is incurred for purposes for which both restricted and unrestricted (committed, assigned or unassigned) resources are available, it is the County's general policy to use restricted resources first. When expenditures are incurred for purposes for which unrestricted (committed, assigned and unassigned) resources are available, and amounts in any of these unrestricted classifications could be used, it is the County's general policy to spend committed resources first, followed by assigned amounts, and then unassigned amounts.

L. Property Tax Revenues.

Numerous statutes exist under which the Board of Supervisors may levy property taxes. The selection of authorities is made based on the objectives and responsibilities of the County. Restrictions associated with property tax levies vary with the statutory authority. The amount of increase in certain property taxes is limited by state law. Generally, this restriction provides that these tax levies shall produce no more than 110% of the amount which resulted from the assessments of the previous year.

SMITH COUNTY

Notes to Financial Statements For the Year Ended September 30, 2014

The Board of Supervisors, each year at a meeting in September, levies property taxes for the ensuing fiscal year which begins on October 1. Real property taxes become a lien on January 1 of the current year, and personal property taxes become a lien on March 1 of the current year. Taxes on both real and personal property, however, are due on or before February 1 of the next succeeding year. Taxes on motor vehicles and mobile homes become a lien and are due in the month that coincides with the month of original purchase.

Accounting principles generally accepted in the United States of America require property taxes to be recognized at the levy date if measurable and available. All property taxes are recognized as revenue in the year for which they are levied. Motor vehicle and mobile home taxes do not meet the measurability and collectability criteria for property tax recognition because the lien and due date cannot be established until the date of original purchase occurs.

M. Intergovernmental Revenues in Governmental Funds.

Intergovernmental revenues, consisting of grants, entitlements and shared revenues, are usually recorded in Governmental Funds when measurable and available. However, the "available" criterion applies for certain federal grants and shared revenues when the expenditure is made because expenditure is the prime factor for determining eligibility. Similarly, if cost sharing or matching requirements exist, revenue recognition depends on compliance with these requirements.

N. Compensated Absences.

The County has adopted a policy of compensation for accumulated unpaid employee benefits; however, adequate records are not maintained for determining the amount of the liability. Therefore, no liability is recorded in the accompanying financial statements as required by accounting principles generally accepted in the United States of America. We believe the effects of the unrecorded liability on the financial statements are immaterial.

O. Changes in Accounting Standards

The County implemented the following standards issued by the Governmental Accounting Standards Board (GASB) in the current fiscal year as required: GASB Statement 65, *Items Previously Reported as Assets and Liabilities*; GASB Statement 66, *Technical Corrections-2012-an amendment of GASB Statements No. 10 and No. 62*. The provisions of these standards have been incorporated into the financial statements and notes.

(2) Deposits.

The carrying amount of the County's total deposits with financial institutions at September 30, 2014, was \$13,277,249, and the bank balance was \$13,397,695. The collateral for public entities' deposits in financial institutions is held in the name of the State Treasurer under a program established by the Mississippi State Legislature and is governed by Section 27-105-5, Miss. Code Ann. (1972). Under this program, the entity's funds are protected through a collateral pool administered by the State Treasurer. Financial institutions holding deposits of public funds must pledge securities as collateral against those deposits. In the event of failure of a financial institution, securities pledged by that institution would be liquidated by the State Treasurer to replace the public deposits not covered by the Federal Deposit Insurance Corporation (FDIC).

Custodial Credit Risk - Deposits. Custodial credit risk is the risk that in the event of the failure of a financial institution, the County will not be able to recover deposits or collateral securities that are in the possession of an outside party. The County does not have a formal policy for custodial credit risk. However, the Mississippi State Treasurer manages that risk on behalf of the County. Deposits above FDIC coverage are collateralized by the pledging financial institution's trust department or agent in the name of the Mississippi State Treasurer on behalf of the County.

SMITH COUNTY

Notes to Financial Statements
For the Year Ended September 30, 2014

(3) Interfund Transactions and Balances.

The following is a summary of interfund balances at September 30, 2014:

A. Due From/To Other Funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Solid Waste Fund	\$ 11,602
Countywide Road & Bridge Fund	General Fund	21,860
2005 Chancery Building & Jail GO Bonds Fund	General Fund	9,044
Other Governmental Funds	General Fund	21,841
Agency Funds	General Fund	<u>3,863</u>
Total		\$ <u>68,210</u>

The receivables represent the tax revenue collected in September, 2014, but not settled until October, 2014, and indirect cost from the Solid Waste Fund. All interfund balances are expected to be repaid within one year from the date of the financial statements.

B. Advances from/to Other Funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Other Governmental Funds	\$ 47,882
Other Governmental Funds	Other Governmental Funds	<u>2,109</u>
Total		\$ <u>49,991</u>

The advances represent operating loans. These advances are not expected to be repaid within one year from the date of the financial statements.

C. Transfers In/Out:

<u>Transfer In</u>	<u>Transfer Out</u>	<u>Amount</u>
General Fund	Other Governmental Funds	\$ 40,000
Other Governmental Funds	Countywide Road & Bridge	<u>1,652,955</u>
Total		\$ <u>1,692,955</u>

The principal purpose of interfund transfers was to allocate amounts to the individual road maintenance funds, to transfer specified funds for accounting purposes, or to transfer funds for operating purposes. All interfund transfers were routine and consistent with the activities of the fund making the transfer.

SMITH COUNTY

Notes to Financial Statements
For the Year Ended September 30, 2014

(4) Intergovernmental Receivables.

Intergovernmental receivables at September 30, 2014, consisted of the following:

Description	Amount
Governmental Activities:	
Legislative tax credit	\$ 107,332
State-aid road reimbursement	3,460
Emergency Management Performance Grant	2,762
Litter removal grant	880
Reimbursement for housing prisoners	<u>357</u>
Total Governmental Activities	\$ <u>114,791</u>

(5) Capital Assets.

The following is a summary of capital assets activity for the year ended September 30, 2014:

Governmental activities:

	Balance Oct. 1, 2013	Additions	Deletions	Adjustments*	Balance Sept. 30, 2014
<u>Non-depreciable capital assets:</u>					
Land	\$ 397,676	44,868			442,544
Construction in progress	<u>400,742</u>	<u>1,245,882</u>			<u>1,646,624</u>
Total non-depreciable capital assets	<u>798,418</u>	<u>1,290,750</u>	<u>0</u>	<u>0</u>	<u>2,089,168</u>
<u>Depreciable capital assets:</u>					
Infrastructure	67,388,443	1,558,177			68,946,620
Buildings	5,888,604				5,888,604
Improvements other than buildings	99,407				99,407
Mobile equipment	4,653,870	53,478	42,941	236,975	4,901,382
Furniture and equipment	689,501		16,817		672,684
Leased property under capital leases	<u>2,314,984</u>	<u>69,794</u>	<u>138,000</u>	<u>(236,975)</u>	<u>2,009,803</u>
Total depreciable capital assets	<u>81,034,809</u>	<u>1,681,449</u>	<u>197,758</u>	<u>0</u>	<u>82,518,500</u>
<u>Less accumulated depreciation for:</u>					
Infrastructure	43,196,905	336,017			43,532,922
Buildings	1,249,888	108,703			1,358,591
Improvements other than buildings	3,977	3,977			7,954
Mobile equipment	3,701,509	172,827	38,648	188,204	4,023,892
Furniture and equipment	588,262	26,430	15,136		599,556

SMITH COUNTY

Notes to Financial Statements
For the Year Ended September 30, 2014

	Balance Oct. 1, 2013	Additions	Deletions	Adjustments*	Balance Sept. 30, 2014
Leased property under capital leases	861,783	223,777	74,520	(188,204)	822,836
Total accumulated depreciation	49,602,324	871,731	128,304	0	50,345,751
Total depreciable capital assets, net	31,432,485	809,718	69,454	0	32,172,749
Governmental activities capital assets, net	\$ 32,230,903	2,100,468	69,454	0	34,261,917

*Adjustments are for the reclassification of equipment transferred to mobile equipment from paid off leases.

Business-type activities:

	Balance Oct. 1, 2013	Additions	Deletions	Adjustments	Balance Sept. 30, 2014
<u>Depreciable capital assets:</u>					
Mobile equipment	373,404	145,421	14,349		504,476
Total depreciable capital assets	373,404	145,421	14,349	0	504,476
<u>Less accumulated depreciation for:</u>					
Mobile equipment	220,926	54,963	12,914		262,975
Total accumulated depreciation	220,926	54,963	12,914		262,975
Total depreciable capital assets, net	152,478	90,458	1,435	0	241,501
Business-type activities capital assets, net	\$ 152,478	90,458	1,435	0	241,501

Depreciation expense was charged to the following functions:

	Amount
Governmental Activities:	
General government	\$ 92,471
Public safety	80,459
Public works	693,465
Culture and recreation	3,977
Conservation of natural resources	1,359
Total governmental activities depreciation expense	\$ 871,731
Business-type activities:	
Solid waste	\$ 54,963

SMITH COUNTY

Notes to Financial Statements For the Year Ended September 30, 2014

Commitments with respect to unfinished capital projects at September 30, 2014, consisted of the following:

Description of Commitment	Remaining Financial Commitment	Expected Date of Completion
Jail	\$ 2,729,569	5/2015

(6) Claims and Judgments.

Risk Financing.

The County finances its exposure to risk of loss related to workers' compensation for injuries to its employees through the Mississippi Public Entity Workers' Compensation Trust, a public entity risk pool. The County pays premiums to the pool for its workers' compensation insurance coverage, and the participation agreement provides that the pool will be self-sustaining through member premiums. The retention for the pool is \$1,000,000 for each accident and completely covers statutory limits set by the Workers' Compensation Commission. Risk of loss is remote for claims exceeding the pool's retention liability. However, the pool also has catastrophic reinsurance coverage for statutory limits above the pool's retention, provided by Safety National Casualty Corporation, effective from January 1, 2014, to January 1, 2015. The pool may make an overall supplemental assessment or declare a refund depending on the loss experience of all the entities it insures.

(7) Capital Leases.

As Lessee:

The County is obligated for the following capital assets acquired through capital leases as of September 30, 2014:

Classes of Property	Governmental Activities
Mobile equipment	\$ 1,889,613
Furniture and equipment	120,190
Total	2,009,803
Less: Accumulated depreciation	822,836
Leased Property Under Capital Leases	\$ 1,186,967

The following is a schedule by years of the total payments due as of September 30, 2014:

Year Ending September 30	Governmental Activities	
	Principal	Interest
2015	\$ 416,250	11,655
2016	198,032	4,798
2017	174,907	1,305
Total	\$ 789,189	17,758

SMITH COUNTY

Notes to Financial Statements
For the Year Ended September 30, 2014

(8) Long-term Debt.

Debt outstanding as of September 30, 2014, consisted of the following:

Description and Purpose	Amount Outstanding	Interest Rate	Final Maturity Date
Governmental Activities:			
A. General Obligation Bonds:			
Chancery building and jail	\$ 3,600,000	3.60-5.00%	03/2025
Agriculture complex	105,000	3.85-5.60%	03/2016
Total General Obligation Bonds	\$ 3,705,000		
B. Capital Leases:			
IBM Model 8203-E4A	\$ 9,280	3.37%	07/2015
Chevrolet Tahoe & two Ford Crown Victorias	26,170	2.46%	02/2016
Static shelving	4,965	2.00%	02/2016
Used 2009 durapatcher	22,541	2.62%	04/2015
Broce broom	22,777	1.95%	02/2016
Communications equipment	3,882	3.00%	09/2015
E-911 equipment	7,372	4.15%	12/2014
Caterpillar 140M motor grader	64,262	2.15%	06/2016
John Deere tractor w/ boom mower	46,988	2.32%	07/2016
Kubota tractor	25,684	2.01%	05/2016
2014 Dodge Ram 1500	19,324	2.12%	03/2017
John Deere tractor with boom mower	16,571	2.43%	09/2015
2013 Mack dump truck with dump body	42,143	2.00%	09/2015
Caterpillar 140M motor grader	82,229	1.99%	02/2017
2013 Dodge Ram 1500 Truck	18,917	1.80%	05/2017
Kubota tractor	26,449	2.01%	05/2016
Used 1993 Ford LNT 8000 Water Truck	15,203	1.93%	09/2015
Caterpillar PS-150 pneumatic compactor	36,612	2.10%	01/2017
Used 2008 Caterpillar 315	2,141	3.15%	10/2014
Used Kubota M9540 tractor	4,934	2.75%	06/2015
John Deere tractor with boom mower	16,571	2.43%	09/2015
2012 Dodge Ram 1500	4,715	2.37%	04/2015
Kubota tractor with loader	9,842	2.23%	04/2015
Motor Grader	18,327	2.12%	04/2016
John Deere 5093 tractor w/ rotary cutter	32,340	2.11%	09/2016
John Deere 6330 tractor	12,232	2.49%	07/2015
John Deere motor grader	177,084	1.61%	03/2017
John Deere 5093E tractor	19,634	2.01%	05/2016
Total Capital Leases	\$ 789,189		

SMITH COUNTY

Notes to Financial Statements For the Year Ended September 30, 2014

Annual debt service requirements to maturity for the following debt reported in the Statement of Net Position are as follows:

Governmental Activities:

Year Ending September 30	General Obligation Bonds	
	Principal	Interest
2015	\$ 310,000	144,346
2016	325,000	131,534
2017	285,000	119,517
2018	295,000	108,349
2019	310,000	96,551
2020 – 2024	1,775,000	277,235
2025 – 2026	405,000	8,606
Total	\$ 3,705,000	886,138

Legal Debt Margin - The amount of debt, excluding specific exempted debt, that can be incurred by the County is limited by state statute. Total outstanding debt during a year can be no greater than 15% of assessed value of the taxable property within the County, according to the then last completed assessment for taxation. However, the limitation is increased to 20% whenever a county issues bonds to repair or replace washed out or collapsed bridges on the public roads of the County. As of September 30, 2014, the amount of outstanding debt was equal to 1.84% of the latest property assessments.

The following is a summary of changes in long-term liabilities and obligations for the year ended September 30, 2014:

	Balance Oct. 1, 2013	Additions	Reductions	Adjustments	Balance Sept. 30, 2014	Amount due within one year
Governmental Activities:						
General obligation bonds	\$ 4,005,000		300,000		3,705,000	310,000
Capital leases	1,211,166	69,794	491,771		789,189	416,250
Total	\$ 5,216,166	69,794	791,771		4,494,189	726,250

(9) Contingencies.

Federal Grants - The County has received federal grants for specific purposes that are subject to audit by the grantor agencies. Entitlements to these resources are generally conditional upon compliance with the terms and conditions of grant agreements and applicable federal regulations, including the expenditure of resources for allowable purposes. Any disallowance resulting from a grantor audit may become a liability of the County. No provision for any liability that may result has been recognized in the County's financial statements.

Litigation - The County is party to legal proceedings, many of which occur in the normal course of governmental operations. It is not possible at the present time to estimate ultimate outcome or liability, if any, of the County with respect to the various proceedings. However, the County's legal counsel believes that ultimate liability resulting from these lawsuits will not have a material adverse effect on the financial condition of the County.

General Obligation Bonds Series 2005 – On March 1, 2005, the County issued \$5,500,000 in General Obligation Bonds to fund construction of the Chancery building and a new jail facility. However, due to Hurricane Katrina striking the Gulf Coast in August 2005, the plans to build the facilities were put on hold to focus on recovery efforts from the storm. In early 2006, the Board of Supervisors of Smith County refocused its efforts on beginning

SMITH COUNTY

Notes to Financial Statements For the Year Ended September 30, 2014

construction of the Chancery Building. The Chancery Building was completed in 2009. However, due to the increased construction cost incurred in completing the Chancery Building and the increase in the estimated cost to construct the jail facility, construction of the jail facility was put on hold. The County has approximately \$1,239,107 of bond proceeds in the Jail Construction Fund at September 30, 2014. The County is currently seeking the advice of Bond Counsel as to the proper use of these funds. On March 24, 2014, the County entered into a construction contract in the amount of \$3,787,600 for the construction of the new Smith County Detention Facility.

(10) Joint Venture.

The County participates in the following joint venture:

Smith County is a participant with Rankin, Scott and Simpson Counties in a joint venture, authorized by Section 39-3-9. Miss. Code Ann. (1972), to operate the Central Mississippi Regional Library System. The joint venture was created to provide free library service to the public and is governed by a five-member board of which two members are appointed by Rankin County and one member each from the other three counties. By contractual agreement, the County's appropriation to the joint venture was \$145,000 in fiscal year 2014. Complete financial statements for the Central Mississippi Regional Library System can be obtained from 3470 Highway 80 East, Pearl, MS 39208.

(11) Jointly Governed Organizations.

The County participates in the following jointly governed organizations:

Central Mississippi Emergency Medical Services District operates in a district composed of the Counties of Attala, Clarke, Copiah, Holmes, Lauderdale, Leake, Madison, Neshoba, Rankin, Scott, Smith, Warren and Yazoo. The Smith County Board of Supervisors appoints two of the 26 members of the board. The County provided no financial support for the district in fiscal year 2014.

Region Ten Health-Mental Retardation Commission operates in a district composed of the Counties of Clarke, Jasper, Kemper, Lauderdale, Leake, Neshoba, Newton, Scott and Smith. The Smith County Board of Supervisors appoints one of the nine members of the board of commissioners. The County provided \$20,840 for support of the commission in fiscal year 2014.

Jones County Junior College operates in a district composed of the Counties of Clarke, Covington, Greene, Jasper, Jones, Perry, Smith and Wayne. The Smith County Board of Supervisors appoints two of the 20 members of the college board of trustees. The County appropriated \$281,621 for maintenance and support of the college for the fiscal year 2014.

East Central Mississippi Planning and Development District operates in a district composed of the Counties of Clarke, Jasper, Kemper, Lauderdale, Leake, Neshoba, Newton, Scott and Smith. The Smith County Board of Supervisors appoints one of the 15 members of the board of directors. The County appropriated \$9,616 for support of the district in fiscal year 2014.

Mid-Mississippi Development District operates in a district composed of the Counties of Clarke, Jasper, Lauderdale, Newton, Scott and Smith. The district was organized to foster, encourage, and facilitate economic development in the member counties. The district's board of trustees is composed of 30 members, five each from the six-member Counties. The County appropriated \$21,750 for support of the district in fiscal year 2014.

(12) Defined Benefit Pension Plan.

Plan Description. Smith County, Mississippi, contributes to the Public Employees' Retirement System of Mississippi (PERS), a cost-sharing, multiple-employer, defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments and death benefits to plan members and beneficiaries. Benefit provisions are established by state law and may be amended only by the State of Mississippi Legislature. PERS issues a publicly available financial report that includes financial statements and required supplementary information. That information may be obtained by writing to Public Employees' Retirement System, PERS Building, 429 Mississippi Street, Jackson, MS 39201-1005 or by calling 1-800-444-PERS.

SMITH COUNTY

Notes to Financial Statements For the Year Ended September 30, 2014

Funding Policy. At September 30, 2014, PERS members were required to contribute 9% of their annual covered salary, and the County is required to contribute at an actuarially determined rate. The rate at September 30, 2014 was 15.75% of annual covered payroll. The contribution requirements of PERS members are established and may be amended only by the State of Mississippi Legislature. The County's contributions (employer share only) to PERS for the years ending September 30, 2014, 2013 and 2012 were \$390,848, \$351,825 and \$307,979, respectively, equal to the required contributions for each year.

(13) Subsequent Events.

Events that occur after the Statement of Net Position date but before the financial statements are available to be issued must be evaluated for recognition or disclosure. The effects of subsequent events that provide evidence about conditions that existed at the Statement of Net Position date are recognized in the accompanying financial statements. Subsequent events which provide evidence about conditions that existed after the Statement of Net Position date require disclosure in the accompanying notes. Management of Smith County evaluated the activity of the County through May 17, 2016, (the date the financial statements were available to be issued), and determined that the following subsequent events have occurred requiring disclosure in the notes to the financial statements.

Subsequent to September 30, 2014, the County issued the following debt obligations:

Issue Date	Interest Rate	Issue Amount	Type of Financing	Source of Financing
01/20/2015	1.93%	\$ 68,591	Capital lease	Ad valorem taxes
03/16/2015	1.93%	23,647	Capital lease	Ad valorem taxes
04/20/2015	2.43%	24,346	Capital lease	Ad valorem taxes
04/20/2015	2.17%	120,139	Capital lease	Ad valorem taxes
05/18/2015	2.04%	13,758	Capital lease	Ad valorem taxes
07/06/2015	2.12%	16,617	Capital lease	Ad valorem taxes
04/04/2016	2.00%	40,000	Capital lease	Ad valorem taxes

SMITH COUNTY

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SMITH COUNTY

REQUIRED SUPPLEMENTARY INFORMATION

SMITH COUNTY

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SMITH COUNTY
Budgetary Comparison Schedule -
Budget and Actual (Non-GAAP Basis)
General Fund
For the Year Ended September 30, 2014
UNAUDITED

	Original Budget	Final Budget	Actual (Budgetary Basis)	Variance with Final Budget Positive (Negative)
REVENUES				
Property taxes	\$ 3,951,960	4,146,141	4,146,141	
Licenses, commissions and other revenue	80,000	99,810	99,810	
Fines and forfeitures	110,000	137,035	137,035	
In lieu taxes - salt dome	300,000	300,000	300,000	
Intergovernmental revenues	892,500	864,793	864,793	
Charges for services	10,000	19,294	19,294	
Interest income	20,350	68,572	68,572	
Miscellaneous revenues	113,000	228,066	228,066	
Total Revenues	<u>5,477,810</u>	<u>5,863,711</u>	<u>5,863,711</u>	<u>0</u>
EXPENDITURES				
Current:				
General government	2,401,012	2,931,319	2,931,319	
Public safety	3,374,457	1,613,133	1,613,133	
Health and welfare	106,554	119,927	119,927	
Culture and recreation	145,000	145,000	145,000	
Education	542,000			
Conservation of natural resources	69,450	62,404	62,404	
Economic development and assistance	40,250	37,200	37,200	
Debt service:				
Principal	17,000	39,187	39,187	
Interest		2,941	2,941	
Total Expenditures	<u>6,695,723</u>	<u>4,951,111</u>	<u>4,951,111</u>	<u>0</u>
Excess of Revenues over (under) Expenditures	<u>(1,217,913)</u>	<u>912,600</u>	<u>912,600</u>	<u>0</u>
OTHER FINANCING SOURCES (USES)				
Proceeds from sale of capital assets		4,950	4,950	
Transfers in	17,000	77,746	77,746	
Transfers out	(185,000)	(8,650)	(8,650)	
Total Other Financing Sources and Uses	<u>(168,000)</u>	<u>74,046</u>	<u>74,046</u>	<u>0</u>
Net Change in Fund Balance	(1,385,913)	986,646	986,646	
Fund Balances - Beginning	<u>2,309,975</u>	<u>4,560,575</u>	<u>4,561,060</u>	<u>485</u>
Fund Balances - Ending	<u>\$ 924,062</u>	<u>5,547,221</u>	<u>5,547,706</u>	<u>485</u>

The accompanying notes to the Required Supplementary Information are an integral part of this schedule.

SMITH COUNTY
 Budgetary Comparison Schedule -
 Budget and Actual (Non-GAAP Basis)
 Countywide Road & Bridge Fund
 For the Year Ended September 30, 2014
 UNAUDITED

	Original Budget	Final Budget	Actual (Budgetary Basis)	Variance with Final Budget Positive (Negative)
REVENUES				
Property taxes	\$ 1,374,500	1,497,311	1,497,311	
In lieu taxes	150,000	152,955	152,955	
Intergovernmental revenues	9,000	12,473	12,473	
Interest income	1,000	1,236	1,236	
Miscellaneous revenues		547	547	
Total Revenues	<u>1,534,500</u>	<u>1,664,522</u>	<u>1,664,522</u>	<u>0</u>
EXPENDITURES				
Current:				
Public works	489,000	334,482	334,482	
Debt service:				
Principal	45,000	53,553	53,553	
Interest		1,741	1,741	
Total Expenditures	<u>534,000</u>	<u>389,776</u>	<u>389,776</u>	<u>0</u>
Excess of Revenues over (under) Expenditures	<u>1,000,500</u>	<u>1,274,746</u>	<u>1,274,746</u>	<u>0</u>
OTHER FINANCING SOURCES (USES)				
Transfers in		261,337	261,337	
Transfers out		(1,914,292)	(1,914,292)	
Other financing uses	(1,000,000)			
Total Other Financing Sources and Uses	<u>(1,000,000)</u>	<u>(1,652,955)</u>	<u>(1,652,955)</u>	<u>0</u>
Net Change in Fund Balance	500	(378,209)	(378,209)	
Fund Balances - Beginning	<u>404,300</u>	<u>747,539</u>	<u>747,539</u>	
Fund Balances - Ending	<u>\$ 404,800</u>	<u>369,330</u>	<u>369,330</u>	<u>0</u>

The accompanying notes to the Required Supplementary Information are an integral part of this schedule.

SMITH COUNTY
 Budgetary Comparison Schedule -
 Budget and Actual (Non-GAAP Basis)
 County Engineer Fund
 For the Year Ended September 30, 2014
 UNAUDITED

	Original Budget	Final Budget	Actual (Budgetary Basis)	Variance with Final Budget Positive (Negative)
REVENUES				
Intergovernmental revenues	\$ 300,000	81,995	81,995	
Total Revenues	<u>300,000</u>	<u>81,995</u>	<u>81,995</u>	<u>0</u>
EXPENDITURES				
Current:				
Public works	300,000	60,414	60,414	0
Total Expenditures	<u>300,000</u>	<u>60,414</u>	<u>60,414</u>	<u>0</u>
Excess of Revenues over (under) Expenditures	<u>0</u>	<u>21,581</u>	<u>21,581</u>	<u>0</u>
OTHER FINANCING SOURCES (USES)				
Transfers in		335	335	
Transfers out		(335)	(335)	
Total Other Financing Sources and Uses	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Net Change in Fund Balance	0	21,581	21,581	
Fund Balances - Beginning	<u>5,693</u>	<u>2,031</u>	<u>2,031</u>	<u>0</u>
Fund Balances - Ending	<u>\$ 5,693</u>	<u>23,612</u>	<u>23,612</u>	<u>0</u>

The accompanying notes to the Required Supplementary Information are an integral part of this schedule.

SMITH COUNTY

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SMITH COUNTY

Notes to the Required Supplementary Information For the Year Ended September 30, 2014

A. Budgetary Information.

Statutory requirements dictate how and when the County's budget is to be prepared. Generally, in the month of August, prior to the ensuing fiscal year beginning each October 1, the Board of Supervisors of the County, using historical and anticipated fiscal data and proposed budgets submitted by the Sheriff and the Tax Assessor-Collector for his or her respective department, prepares an original budget for each of the Governmental Funds for said fiscal year. The completed budget for the fiscal year includes for each fund every source of revenue, each general item of expenditure, and the unencumbered cash and investment balances. When during the fiscal year it appears to the Board of Supervisors that budgetary estimates will not be met, it may make revisions to the budget.

The County's budget is prepared principally on the cash basis of accounting. All appropriations lapse at year end, and there are no encumbrances to budget because state law does not require that funds be available when goods or services are ordered, only when payment is made

B. Basis of Presentation.

The Budgetary Comparison Schedule - Budget and Actual (Non-GAAP Basis) presents the original legally adopted budget, the final legally adopted budget, actual amounts on a budgetary (Non-GAAP Basis) and variances between the final budget and the actual amounts. The schedule is presented for the General Fund and each major Special Revenue Fund. The Budgetary Comparison Schedule - Budget and Actual (Non-GAAP Basis) is a part of required supplemental information.

C. Budget/GAAP Reconciliation.

The major differences between the budgetary basis and the GAAP basis are:

1. Revenues are recorded when received in cash (budgetary) as opposed to when susceptible to accrual (GAAP).
2. Expenditures are recorded when paid in cash (budgetary) as opposed to when susceptible to accrual (GAAP).

The following schedule reconciles the budgetary basis schedules to the GAAP basis financial statements for the General Fund and each major Special Revenue Fund:

	Governmental Fund Types		
	General Fund	Countywide Road & Bridge Fund	County Engineer Fund
Budget (Cash Basis)	\$ 986,646	(378,209)	21,581
Increase (Decrease)			
Net adjustments for revenue accruals	(317,252)	(260,796)	1,561,302
Net adjustments for expenditure accruals	296,389	246,515	(1,582,883)
GAAP Basis	\$ <u>965,783</u>	<u>(392,490)</u>	<u>0</u>

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OTHER INFORMATION

SMITH COUNTY

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SMITH COUNTY
Schedule of Surety Bonds for County Officials
For the Year Ended September 30, 2014
UNAUDITED

Name	Position	Company	Bond
Kenneth R. Cain	Supervisor District 1	Western Surety	\$100,000
Dwight D. Norris	Supervisor District 2	Western Surety	\$100,000
Benjie Ford	Supervisor District 3	Western Surety	\$100,000
Danny W. Arender	Supervisor District 4	Western Surety	\$100,000
Howard Hammons	Supervisor District 5	Western Surety	\$100,000
Cindy Austin	Chancery Clerk	Western Surety	\$100,000
Rita McDonald	Purchase Clerk	Western Surety	\$75,000
Marsha Ivy	Receiving Clerk	Western Surety	\$75,000
Steven Phillips	Assistant Receiving Clerk	Western Surety	\$50,000
L.D. Haynes	Assistant Receiving Clerk	Western Surety	\$50,000
John Hodge	Assistant Receiving Clerk	Western Surety	\$50,000
LaRonnie M offett	Assistant Receiving Clerk	Western Surety	\$50,000
Joseph Nickson	Assistant Receiving Clerk	Western Surety	\$50,000
Tex Walley	Assistant Receiving Clerk	Western Surety	\$50,000
Mavis Seaberry	Inventory Control Clerk	Western Surety	\$75,000
David Easterling	Constable	Western Surety	\$50,000
Dennis Jones	Constable	Western Surety	\$50,000
Anthony Grayson	Circuit Clerk	Western Surety	\$100,000
Hope Westbrook	Deputy Circuit Clerk	Western Surety	\$50,000
Amber Craft	Deputy Circuit Clerk	Western Surety	\$50,000
Clara Brown	Deputy Circuit Clerk	Western Surety	\$50,000
Sheree Hester	Deputy Circuit Clerk	Western Surety	\$50,000
Charlie Crumpton	Sheriff	Western Surety	\$100,000
Marty Patterson	Sheriff's Deputy (hired under Section 45-5-9 Miss. Code Ann. (1972))	Western Surety	\$50,000
Hulon West	Justice Court Judge	Western Surety	\$50,000
Jerry Baldwin	Justice Court Judge	Western Surety	\$50,000
Melissa Walker	Justice Court Clerk	Western Surety	\$50,000
Arthur Newman	Deputy Justice Court Clerk	Western Surety	\$50,000
Robbin Matilda Hannah	Deputy Justice Court Clerk	Western Surety	\$50,000
Becky Martin	Tax Collector-Assessor	Western Surety	\$100,000
Sharon Ellis	Deputy Tax Collector	Western Surety	\$50,000
Jeannie Easterling	Deputy Tax Collector	Western Surety	\$50,000
Jamie Moore	Deputy Tax Collector	Western Surety	\$10,000
Kayla Crumpton	Deputy Tax Collector	Western Surety	\$50,000
Jennifer Ory	Solid Waste Clerk	Western Surety	\$50,000
Justin Middleton	Solid Waste Clerk	Western Surety	\$50,000
Kathryn Scott	Solid Waste Clerk	Western Surety	\$10,000

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SMITH COUNTY

SPECIAL REPORTS

SMITH COUNTY

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STATE OF MISSISSIPPI
OFFICE OF THE STATE AUDITOR
STACEY E. PICKERING
AUDITOR

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE
FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Members of the Board of Supervisors
Smith County, Mississippi

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Smith County, Mississippi, as of and for the year ended September 30, 2014, and the related notes to the financial statements, which collectively comprise the County's basic financial statements and have issued our report thereon dated May 17, 2016. Our report includes an adverse opinion on the aggregate discretely presented component unit due to the omission of the discretely presented component unit which is required by accounting principles generally accepted in the United States of America to be reported with the financial data of the County's primary government unless the County also issues financial statements for the financial reporting entity that include the financial data for its component unit. The report is qualified on the General Fund because the County did not maintain adequate subsidiary records documenting the existence, completeness and valuation of Circuit Court fines receivables as required by accounting principles generally accepted in the United States of America. Except for the limitations related to the Circuit Court fines receivables, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Smith County, Mississippi's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control. Accordingly, we do not express an opinion on the effectiveness of the County's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings and Responses, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings and Responses as 2014-001, 2014-002 and 2014-003 to be material weaknesses.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying Schedule of Findings and Responses as 2014-004 to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Smith County, Mississippi's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying Schedule of Findings and Responses as item 2014-002.

We also noted certain matters which we have reported to the management of Smith County, Mississippi, in the Independent Accountant's Report on Central Purchasing System, Inventory Control System and Purchase Clerk Schedules and the Limited Internal Control and Compliance Review Management Report dated May 17, 2016, included within this document.

Smith County's Responses to Findings

Smith County's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Responses. Smith County's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited.



JOE E. MCKNIGHT, CPA
Director, County Audit Section

May 17, 2016



STATE OF MISSISSIPPI
OFFICE OF THE STATE AUDITOR
STACEY E. PICKERING
AUDITOR

**INDEPENDENT ACCOUNTANT'S REPORT ON CENTRAL PURCHASING SYSTEM,
INVENTORY CONTROL SYSTEM AND PURCHASE CLERK SCHEDULES
(REQUIRED BY SECTION 31-7-115, MISS. CODE ANN. (1972))**

Members of the Board of Supervisors
Smith County, Mississippi

We have examined Smith County, Mississippi's (the County) compliance with establishing and maintaining a central purchasing system and inventory control system in accordance with Sections 31-7-101 through 31-7-127, Miss. Code Ann. (1972) and compliance with the purchasing requirements in accordance with the bid requirements of Section 31-7-13, Miss. Code Ann. (1972) during the year ended September 30, 2014. The Board of Supervisors of Smith County, Mississippi is responsible for the County's compliance with those requirements. Our responsibility is to express an opinion on the County's compliance based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included examining, on a test basis, evidence about the County's compliance with those requirements and performing other procedures as we considered necessary in the circumstances. We believe our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on the County's compliance with specified requirements. The Board of Supervisors of Smith County, Mississippi, has established centralized purchasing for all funds of the County and has established an inventory control system. The objective of the central purchasing system is to provide reasonable, but not absolute, assurance that purchases are executed in accordance with state law.

Because of inherent limitations in any central purchasing system and inventory control system, errors or irregularities may occur and not be detected. Also, projection of any current evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the degree of compliance with the procedures may deteriorate.

The results of our audit procedures disclosed certain instances of noncompliance with the aforementioned code sections. These instances of noncompliance were considered in forming our opinion on compliance. Our findings and recommendations and your responses are disclosed below:

Board of Supervisors and Purchase Clerk.

1. The Board of Supervisors should appoint an assistant purchase clerk.

Finding

Section 31-7-124, Miss. Code Ann. (1972), requires the Assistant Purchase Clerk to execute a bond in a penalty no less than \$50,000, to be payable, conditioned and approved as provided by law. It was noted during the audit, the County had not appointed an Assistant Purchase Clerk and was not bonded per this statute. Failure to comply with the statutes would limit the amount available for recovery if a loss occurred over multiple terms.

Recommendation

The County should implement additional procedures to ensure an Assistant Purchase Clerk is appointed and bonded as required by state statute.

Board of Supervisors and Purchase Clerk's Response

Will be addressed at 1st Monday of December 2015 to appoint an assistant purchase clerk

Board of Supervisor and Receiving Clerk.

2. Receiving Clerk should be bonded for correct amount.

Finding

Section 31-7-124, Miss. Code Ann. (1972), requires the Receiving Clerk to execute a bond in a penalty equal to \$75,000, to be payable, conditioned and approved as provided by law. It was noted during the audit, the Receiving Clerk was not bonded per this statute. Failure to comply with the statutes would limit the amount available for recovery if a loss occurred over multiple terms.

Recommendation

The County should implement additional procedures to ensure the Receiving Clerk is bonded as required by state statute.

Board of Supervisors and Receiving Clerk's Response

This matter has been corrected.

In our opinion, except for the noncompliance referred to in the preceding paragraph, Smith County, Mississippi, complied, in all material respects, with state laws governing central purchasing, inventory and bid requirements for the year ended September 30, 2014.

The accompanying schedules of (1) Purchases Not Made from the Lowest Bidder, (2) Emergency Purchases and (3) Purchases Made Noncompetitively from a Sole Source are presented in accordance with Section 31-7-115, Miss. Code Ann. (1972). The information contained on these schedules has been subjected to procedures performed in connection with our aforementioned examination of the purchasing system and, in our opinion, is fairly presented when considered in relation to that examination.

Smith County's responses to the findings included in this report were not audited, and accordingly, we express no opinion on them.

This report is intended for use in evaluating the central purchasing system and inventory control system of Smith County, Mississippi, and is not intended to be and should not be relied upon for any other purpose. However, this report is a matter of public record and its distribution is not limited.



JOE E.MCKNIGHT, CPA
Director, County Audit Section

May 17, 2016

SMITH COUNTY

Schedule 1

Schedule of Purchases Not Made From the Lowest Bidder
For the Year Ended September 30, 2014

Our test results did not identify any purchases from other than the lowest bidder.

SMITH COUNTY
Schedule of Emergency Purchases
For the Year Ended September 30, 2014

Schedule 2

Our test results did not identify any emergency purchases.

SMITH COUNTY

Schedule 3Schedule of Purchases Made Noncompetitively From a Sole Source
For the Year Ended September 30, 2014

<u>Date</u>	<u>Item Purchased</u>	<u>Amount Paid</u>	<u>Vendor</u>
1/22/14	Shelter Tent	\$ 19,788	Western Shelter

SMITH COUNTY

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**STATE OF MISSISSIPPI
OFFICE OF THE STATE AUDITOR
STACEY E. PICKERING
AUDITOR**

LIMITED INTERNAL CONTROL AND COMPLIANCE REVIEW MANAGEMENT REPORT

Members of the Board of Supervisors
Smith County, Mississippi

In planning and performing our audit of the financial statements of Smith County, Mississippi for the year ended September 30, 2014, we considered Smith County, Mississippi's internal control to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on internal control.

In addition, for areas not considered material to Smith County, Mississippi's financial reporting, we have performed some additional limited internal control and state legal compliance review procedures as identified in the state legal compliance audit program issued by the Office of the State Auditor. Our procedures were substantially less in scope than an audit, the objective of which is the expression of an opinion on the County's compliance with these requirements. Accordingly, we do not express such an opinion. This report does not affect our report dated May 17, 2016, on the financial statements of Smith County, Mississippi.

Due to the reduced scope, these review procedures and compliance tests cannot and do not provide absolute assurance that all state legal requirements have been complied with. Also, our consideration of internal control would not necessarily disclose all matters within the internal control that might be weaknesses. In accordance with Section 7-7-211, Miss. Code Ann. (1972), the Office of the State Auditor, when deemed necessary, may conduct additional procedures and tests of transactions for this or other fiscal years to ensure compliance with legal requirements.

The results of our review procedures and compliance tests identified certain areas that are opportunities for strengthening internal controls and operating efficiency. Our findings, recommendations, and your responses are disclosed below:

Board of Supervisors.

1. Public depositor's fiscal year end report should be reconciled with County records.

Finding

Section 27-105-5(5)(b), Miss. Code Ann. (1972), states that a qualified public funds depository (bank) shall provide to each public depositor (County) annually, not later than thirty (30) days following the public depositor's fiscal year end, the following information on all open accounts identified as a "public deposit" for that public depositor (County) as of its fiscal year end, to be used for confirmation purposes: the federal employer identification number of the public funds depository, the name on the deposit account record, the federal employer identification number on the deposit account record, and the account number, account type and actual account balance on deposit. Any discrepancy found in the confirmation process shall be reconciled within sixty (60) days of the public depositor's fiscal year end. As reported in the prior year's audit report, during the testing of collateralization of public funds, it was noted that Smith County did not perform the necessary reconciliation within sixty days of the fiscal year end. In order to comply with Section 27-105-5(5)(b), Miss. Code Ann. (1972) the County must reconcile the public funds depository's annual report to County records. Without reconciliation, the risk increases that the County's total deposits may not be properly collateralized.

Recommendation

We recommend that Smith County develop control procedures to ensure that all public funds depository annual reports are received by the County not later than thirty (30) days following fiscal year end, and any discrepancy found is reconciled within sixty (60) days of the public depositor's fiscal year end.

Board of Supervisors' Response

Accounting Clerk has taken steps to comply with recommendation of Audit Dept.

2. Controls over collateralization of public funds should be strengthened.

Finding

Section 27-105-5(6)(b), Miss. Code Ann. (1972), requires that not later than thirty (30) days following its fiscal year end, a public depositor shall notify the State Treasurer of its official name, address, federal tax identification number, and provide a listing of all accounts that it had with qualified public depositories, including the deposit balance in those accounts, as of its fiscal year end. As reported in the prior year's audit report, during the testing of collateralization of public funds, it was noted that Smith County did not submit the public depositor's annual report to the State Treasurer's Office within 30 days of fiscal year end. Failure to submit the public depositor's annual report in a timely manner could result in the State Treasurer's Office having inaccurate records and increase the risk that the County's total deposits may not be properly collateralized.

Recommendation

We recommend that Smith County develop control procedures to ensure that the public depositor's annual report is submitted to the State Treasurer's Office within 30 days of fiscal year end.

Board of Supervisors' Response

Accounting Clerk has taken steps to comply with recommendation of Audit Dept.

3. Inter-fund transfers were not approved by the Board of Supervisors.

Finding

Section 19-3-27, Miss. Code Ann. (1972), requires a complete and correct record be maintained for all proceedings of the Board of Supervisors. Inter-fund transfers were made without board orders spread on the minutes. The failure to obtain board approval for inter-fund transfers could result in erroneous amounts reported and increases the possibility of the loss or misuse of public funds.

Recommendation

The Board of Supervisors should spread complete orders on the minutes relative to inter-fund transfers.

Board of Supervisors' Response

Board of Supervisors have taken steps to comply with recommendation of Audit Dept.

4. The Board of Supervisors' should ensure the Deputy Justice Court Clerk is bonded.

Finding

Section 9-11-29(2), Miss. Code Ann. (1972), requires that all Deputy Justice Court Clerks be bonded for three percent of the prior year's taxes with a minimum of \$50,000 and a maximum of \$100,000. During our test work, it was determined that a Deputy Justice Court Clerk was not bonded during the 2014 fiscal year. Failure to secure a bond as required by state code could result in the loss of public funds.

Recommendation

The Board of Supervisors should ensure that all Deputy Justice Court Clerks obtain a bond as stated in the state code.

Board of Supervisors' Response

The Board of Supervisors' Office will ensure that all Deputy Justice Court Clerks will be bonded each year.

5. The County should create a rotation of backups offsite.

Finding

The County is currently using an automated system to perform daily back-ups of the AS400. Upon clarification of the backup processes, it was determined that the tapes should be taken offsite, as no other copy of county data was being stored at an off-site location. Without proper off-site storage of back-up files and applications, material damage could be realized by the County and its processes should a catastrophic event occur involving the County's building and servers. Risk and probabilities of material loss escalates in relationship to the longer an exposure goes unmitigated.

Recommendation

We recommend that the County implement a plan to insure that all back-up files are taken offsite on a regular basis and stored in a safe and secure location. This process should be documented in the County's Disaster Recovery Plan. With close proximity of a bank it would be convenient and safe to place the backup tapes in the night deposit drop and then place them in a safe deposit box the next day. It is further recommended that tapes be kept at the bank for several days (e.g., two weeks), in case of a disaster situation that required recovery and problems in reading recovery tapes were experienced.

Board of Supervisors' Response

The County has started a plan to ensure that all back-up files are taken off site on a regular basis and stored in a safe and secure location.

6. The County should expire all individual's passwords on a periodic basis.

Finding

As noted in the prior two years' audit reports, a review of the County's security settings revealed that some user's passwords were set to expire on a more infrequent basis than recommended in best business practices. All passwords should be set to expire in accordance with policy to be determined by the County using best business practices guidelines.

Recommendation

We recommend that a policy be implemented to ensure that passwords are expired on a regular basis. In addition, the County should conduct access reviews for information assets on a periodic basis (at least annually). Documentation of these reviews should be signed by the person conducting them and retained for review by auditors.

Board of Supervisors' Response

The County has begun this process. Some departments have already completed this. The Board is looking into putting an addendum in the Handbook addressing this.

7. The County should improve its server room environment management.

Finding

The County's computer room is not a dedicated room with limited, controlled access and proper environmental equipment for electronic equipment. The room is secure in that there are people working during business hours in and around the computer. However, the computer is in the open and has the potential to be accessed by unauthorized personnel. Although the room does have air conditioning, it does not have monitoring equipment for other conditions that can have an adverse effect on electronic equipment.

Recommendation

We recommend that the County establish an area specifically for computerized equipment that can be locked and provisioned with environmental control and monitoring equipment in relation to heat, humidity, and other conditions that might affect computerized equipment. This equipment should also have the capability to notify the proper personnel when these conditions vary outside of preset ranges. A log should also be maintained of visitors entering and exiting the computer room. In addition, access reviews should be completed on a periodic basis to determine that only authorized personnel have access to the computer room. Documentation of visitors to the computer room as well as periodic access reviews should be maintained for review by audit personnel.

Board of Supervisors' Response

This has been corrected and there is a sign in sheet that everyone that goes in must sign.

8. The County should strengthen passwords.

Finding

As noted in the prior two years' audit reports, we noted during our review that the County is using some parameters associated with password strength that do not meet industry standard best practices, thereby creating unnecessary risk for county information assets.

Gaining access to data assets can often open doors to highly confidential information such as Personally Identifiable Information (PII), confidential governmental reports, and security information related to governmental entities. Through this type of unauthorized access situations such as data breaches and denial of service attacks can be initiated.

Attack methods can be slowed down significantly or even defeated through the use of strong passwords. Therefore, whenever possible, computer users should use strong passwords for all of their computer accounts.

Recommendation

We recommend that the County improve its password strength by changing password parameters to comply with password management best practices and industry standards. Characteristics of strong passwords include requirements for sufficient length, complexity (combinations of numbers, letters and special characters), and periodic change of passwords.

Board of Supervisors' Response

The County has begun this process. Some departments have already completed this. The Board is looking into putting an addendum in the Handbook addressing this.

9. Issues Regarding Segregation of Duties in the Board of Supervisors Office Personnel

Finding

A finding related to segregation of duties was listed in the 2012 fiscal year audit report. This finding mainly dealt with Segregation of Duties issues related to the AS400 security administrator. During the fiscal year 2014 audit, it was noted that Segregation of Duties issues still exist, possibly for both the AS400 administrator and other administrative staff. For example, test work revealed that some personnel that were involved in processing payroll

were also involved in reconciling bank statements, as well as marking checks as cleared the bank. The failure to implement proper controls related to the segregation of duties could result in the loss or misappropriation of public funds.

Recommendation

In order to clearly determine and mitigate any Segregation of Duties issues that might exist for the administrative staff of Smith County, a thorough review of access to functionality of all significant financial related applications should be conducted by management. Appropriate documentation of such access reviews should be signed and dated by those involved in the review and retained for audit purposes. Recognizing that the administrative staff at Smith County is small, it is further recommended that additional controls, such as automatic logging of specific activity and periodic review of such activity by management, be implemented where Segregation of Duties issues cannot be resolved through additional staffing.

Board of Supervisors' Response

We have changed our procedures to correct this issue.

10. The County should establish and test a disaster recovery process.

Finding

As noted in the prior two years' audit reports, during our review of the information systems controls of the County, we noted that the County has not established a disaster recovery process. As a result, the County cannot fully ensure that the information systems can be restored in a timely manner. Disaster recovery involves defining and documenting plans to help sustain and recover critical information technology resources, information systems, and associated business functions. Control Objectives for Information and Related Technology (CobiT, Section DS4), as well as recognized industry best practices, require a written disaster recovery plan be developed and tested regularly to provide orderly recovery of vital functions in the event of a hardware or environmental disaster. Failure to maintain an adequate recovery plan could impede the County's ability to regain computer operations in the event of a disaster.

There are a number of steps that an organization can take to prevent or minimize the damage to automated operations that may occur from unexpected events. One example is routinely backing up data files and programs and periodically restoring these files and programs as part of a formal, documented disaster recovery exercise. Such actions maintain the organization's ability to restore data files, which may be impossible to re-create.

The County is currently creating back-up files, but is not restoring such files as part of a formal, documented disaster recovery exercise. Without proper assurance that backup files can be utilized to adequately restore all critical data in a timely manner in the event of a disaster scenario, material damage could be realized by the County and its processes should a catastrophic event occur involving the County's buildings and servers. Risk and probabilities of material loss escalates in relationship to the longer an exposure goes unmitigated.

Without proper assurance that backup files can be utilized to adequately restore all critical data in a timely manner in the event of disaster scenario, material damage could be realized by the County and its processes should a catastrophic event occur involving the County's building and servers. Risk and probabilities of material loss escalates in relationship to the longer an exposure goes unmitigated.

Recommendation

We recommend that the County develop, implement, and test a plan to insure that critical data and applications are recoverable in case of a disaster scenario. In order to do this it will be necessary to gain an understanding from vendors involved in the backup process of the types of backups that should be created, on what frequency these backups should be created, the processes necessary to create the various types of backups and the responsibilities of the various parties involved, including county personnel and vendor personnel. Furthermore, these procedures and responsibilities should be documented and agreed upon by all parties involved.

We also recommend that the County develop and implement a disaster recovery plan documenting procedures to be followed during an emergency. Once the plan is completed, it should be subjected to proper testing, and employees should be made aware of their responsibilities in the event of a disaster. The plan should be stored in a safe, accessible location and updated when needed in order to maintain readiness for a disaster scenario.

Board of Supervisors' Response

The Board of Supervisors will look into developing, implementing and testing a plan that critical data applications may be recovered in case of a disaster scenario and develop and implement a disaster recovery plan documenting procedures to be followed during an emergency as budgetary and/or economic constraints allow.

11. The County should implement a formal information security policy.

Finding

As noted in the prior two years' audit reports, the County has not adopted a formal Information Security Policy or Enterprise Security Plan.

The lack of a formal Information Security Policy can lead to a breakdown of basic security practices in the areas of application security, LAN/WAN security, management of the security application and internet protocol.

Recommendation

A robust set of Information Technology Policies should cover at least the following areas:

- Acceptable Use
- Portable Computing
- Change Management
- Encryption
- Security Incident Response
- Risk Management
- Backup and Recovery
- Business Continuity I Disaster Recovery

While full compliance with all facets of such a policy may be an economic challenge for the County, beginning steps to become compliant with a policy covering areas such as those listed above are necessary. We recommend that the County create a plan of compliance with industry standards to ensure progress towards a robust documented information security plan. This policy should be reviewed and approved by county supervisors. In addition, employees that utilize technology should review and accept such policies before access to computer resources is granted to employees. Proof of approval by management and acceptance by employees should be retained for review by auditors.

For further clarification, simply saying that passwords need to be strong is not sufficient. In this case, the policy should state that passwords should be at least 8 characters for normal users and 13 characters for those users that have elevated privileges. In addition, complexity requiring numbers and special characters should also be specified.

Board of Supervisors' Response

The Board will look into implementing this as budgetary and economic constraints allow.

Board of Supervisors and Payroll Clerk.

12. PERS Retirees should not be paid more than one-half salary of their position.

Finding

Section 25-11-127(4)(a), Miss. Code Ann. (1972), requires retirees to receive no more than one-half of the salary in effect for the position at the time of employment in a fiscal year. During our testwork, we noted that a PERS retiree was paid more than one-half of the salary for their position during fiscal year 2014. By overpaying PERS retirees, the County is not in compliance with state legal requirements.

Recommendation

The County should ensure that PERS retirees are not being paid more than the allowable amount.

Board of Supervisors and Payroll Clerk's Response

Chancery Clerk and Board of Supervisors are working with employees and Payroll Clerk to implement a plan to avoid this happening in the future.

Chancery Clerk.

13. The Chancery Clerk should make deposits in a timely manner.

Finding

An effective system of internal control should include making daily deposits. As reported in the prior three years' audit reports, we noted that deposits were only being made 3-5 times per month, instead of daily. Failure to make daily deposits could result in the loss of public funds.

Recommendation

The Chancery Clerk should ensure that daily deposits are being made.

Chancery Clerk's Response

Chancery Clerk has made changes to try to ensure daily deposits are made per Audit Dept. recommendation.

Circuit Clerk.

14. Internal Controls should be strengthened in the Circuit Clerk's Office.

Finding

An effective system of internal control over cash should include daily bank deposits and settlement of funds to the proper authorities each month. As reported in the prior seven years' audit reports, we noted that bank deposits are not being made on a daily basis, which is a deficiency in internal control. Additionally, criminal and civil settlements are not being made in a timely manner, and it was noted that the clerk is preparing deposits, taking deposits to the bank, preparing cash journals, preparing settlements, disbursing checks, and reconciling accounts each month. The failure to implement proper controls and have proper segregation of duties could result in the loss or misappropriation of public funds.

Recommendation

The Circuit Clerk should ensure that bank deposits are made daily and settlements from the civil and criminal accounts are being made each month. Additionally, duties should be segregated between personnel in the Circuit Clerk's office.

Circuit Clerk's Response

As long as I am held responsible for the monies in the Circuit Clerk's office, I will make deposits, handle money, etc. in order to insure that the record of the Smith County Circuit Clerk's office of having no money unaccounted for or misappropriated will continue. If by some judge or order I could be relieved of the responsibility of the monies, I would gladly allow others to have these responsibilities.

Sheriff and Board of Supervisors.

15. Sheriff should improve controls over the special drug fund.

Finding

Section 99-3-39, Miss. Code Ann. (1972), requires that the amount available for monetary rewards for information leading to the apprehension of any person subsequently convicted of any crime or misdemeanor committed within the state shall be fixed by the Board of Supervisors. The Smith County Sheriff's office has an account which they use to purchase information and evidence. As reported in the prior year's audit report, during our audit procedures, it was noted that the Board of Supervisors had not approved a set limit for the amount of cash to be appropriated to the Sheriff for the purchase of information and evidence. Also, the Sheriff's office was not submitting expense vouchers to the Board of Supervisors for reimbursement of the approved limit in the account. Without a set limit and without submitting vouchers to the Board of Supervisors the Sheriff's office could build up a material amount of cash on hand and increase the risk of misappropriation of public funds.

Recommendation

The Board of Supervisors should approve a limit of cash that the Sheriff's office can have on hand for the purchase of information and evidence. Vouchers should be submitted to the Board of Supervisors for replacement of cash that has been spent before the special drug fund is replenished to the approved set limit.

Sheriff and Board of Supervisors' Response

Board of Supervisors have taken steps to comply with recommendation of the State Auditor's Office.

Smith County's responses to the findings included in this report were not audited, and accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, the Board of Supervisors, and others within the entity and is not intended to be and should not be used by anyone other than these parties. However, this report is a matter of public record and its distribution is not limited.



JOE E. MCKNIGHT, CPA
Director, County Audit Section

May 17, 2016

SMITH COUNTY

SCHEDULE OF FINDINGS AND RESPONSES

SMITH COUNTY

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SMITH COUNTY

Schedule of Findings and Responses For the Year Ended September 30, 2014

Section 1: Summary of Auditor's Results

Financial Statements:

- | | | |
|----|---|------------|
| 1. | Type of auditor's report issued: | |
| | Governmental activities | Unmodified |
| | Business-type activities | Unmodified |
| | Aggregate discretely presented component units | Adverse |
| | General Fund | Qualified |
| | Countywide Road and Bridge Fund | Unmodified |
| | County Engineer Fund | Unmodified |
| | Jail Construction Fund | Unmodified |
| | 2005 Chancery Building & Jail GO Bond Fund | Unmodified |
| | Solid Waste Fund | Unmodified |
| | Aggregate remaining fund information | Unmodified |
| 2. | Internal control over financial reporting: | |
| | a. Material weaknesses identified? | Yes |
| | b. Significant deficiencies identified? | Yes |
| 3. | Noncompliance material to financial statements noted? | Yes |

Section 2: Financial Statement Findings

Board of Supervisors.

Material Weakness

2014-001. The component unit should be included in the financial statements.

Finding

Generally Accepted Accounting Principles require the financial data for the County's component units to be reported with the financial data of the County's primary government unless the County also issues financial statements for the financial reporting entity that include the financial data of the County's legally separate component unit. As reported in the prior seven years' audit reports, the financial statements do not include the financial data for the County's legally separate component unit. The failure to properly comply with Generally Accepted Accounting Principles resulted in an adverse opinion on the discretely presented component unit for the inclusion in the County's financial statements.

Recommendation

The Board of Supervisors should provide the financial data for its discretely presented component unit for the inclusion in the County's financial statements.

Board of Supervisors' Response

Due to cost restraints on having independent audit it is not feasible at this time.

SMITH COUNTY

Schedule of Findings and Responses For the Year Ended September 30, 2014

Material Weakness
Material Non-compliance

2014-002. Controls over compliance with bond covenants should be strengthened.

Finding

The County entered into a general obligation bond agreement on March 1, 2005, for the acquisition and construction of a chancery building and jail facility, in the amount of \$5,500,000. In the bond covenant, there is requirement for a due diligence test and for an expenditure test. The due diligence test states "The County reasonably expects that the acquisition and construction of the Construction Project will proceed with due diligence to completion by April 6, 2008." The expenditure test states "It is expected that all of the net sale proceeds of the Bonds will be fully expended on the Project by April 6, 2008." As reported in the prior two years' audit reports, it was noted during our audit procedures, that \$1,239,107 remained in the jail construction fund and had not been expended for the completion of the jail facility as of September 30, 2014. Therefore, the County did not materially comply with the bond covenant.

Recommendation

The County should seek legal guidance from the County's attorney and bond counsel as to the appropriate action the County should take at this time related to the remaining bond proceeds on hand. Internal controls should also be put in place to ensure compliance with future bond covenants will be made.

Board of Supervisors' Response

Board of Supervisors have taken steps to comply with recommendation of the State Auditor's Office.

Circuit Clerk.

Material Weakness

2014-003. Controls over fines receivable aging reports in the Circuit Clerk's office should be strengthened.

Finding

An effective system of internal control over Circuit Clerk fines receivable should include maintaining adequate subsidiary records to substantiate the total fines receivable balance. As reported in the prior two years' audit reports, management did not maintain adequate subsidiary records documenting the existence and valuation of fines receivable for Circuit Clerk fines at year end. Therefore, the Independent Auditor's Report includes a qualified opinion on the General Fund because we were unable to satisfy ourselves as to the fair presentation of the Circuit Clerk's fines receivable. Failure to establish control procedures over aging of Circuit Clerk fines receivable could result in erroneous amounts being reported in the financial statements.

Recommendation

The Circuit Clerk should establish procedures documenting the existence and valuation of Circuit Court fines receivable for inclusion in the financial statements.

SMITH COUNTY

Schedule of Findings and Responses For the Year Ended September 30, 2014

Circuit Clerk's Response

I was assured by all parties concerned including the State Auditor's Office, the accounting package by Delta Computers Software would provide financial statements adequate for all records and audits. I have not been told what other system is required.

Auditor's Note:

The Circuit Clerk's Fines Receivable report is a time sensitive report. The Clerk failed to print the report at September 30, 2014.

Payroll Clerk.

Significant Deficiency

2014-004. Payroll Clerk should maintain adequate records for compensated absences liability.

Finding

The County has adopted a policy of compensated absences for its employees. The Payroll Clerk should maintain records that account for the number of leave hours each employee accumulates on a monthly basis and the current hourly rate of pay for each employee. This information is needed to calculate the end of year compensated absences liability. Generally accepted accounting principles require the resulting liability to be reported in the financial statements. The Payroll Clerk did not maintain the necessary records to calculate the compensated absences liability. Failure to properly account for compensated absences could result in the incorrect payments being made to employees leaving County service, and result in not reporting the compensated absences liability in the financial statements.

Recommendation

The Payroll Clerk should maintain adequate records so the total compensated absences liability can be calculated and reported in the financial statements as required by generally accepted accounting principles.

Payroll Clerk's Response

Payroll Clerk has taken steps to comply with recommendation of the State Auditor's Office.